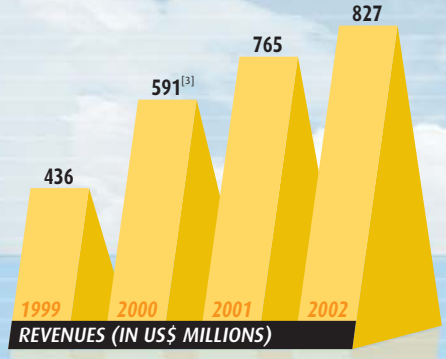
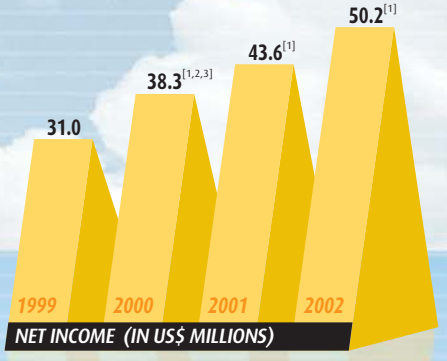
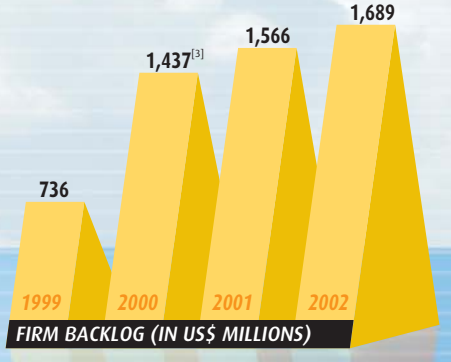
FINANCIAL HIGHLIGHTS	2002	2001
Revenues	**$827,456**	$764,501
Research and Development	**$62,560**	$67,871
Net Income	**$50,153**[1]	$43,596 [1]
Diluted Earnings per Share	**$1,26**[1]	$1,11 [1]
Total Assets	**$935,841**	$901,417
Shareholders' Equity	**$411,361**	$377,985
Backlog of Orders	**$1,689,000**	$1,566,000

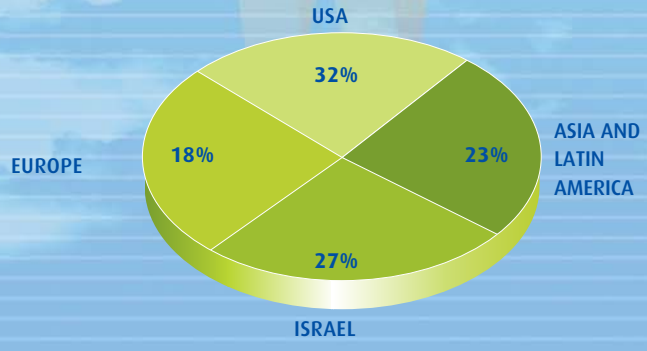
In US$ thousands except per share amounts

(1) Excluding goodwill amortization in 2000 and 2001 and non-recurring tax adjustment and one-time charge in 2002
(2) Excluding one-time charges related to the El-Op merger in 2000
(3) Including consolidation of El-Op's results in second half of 2000

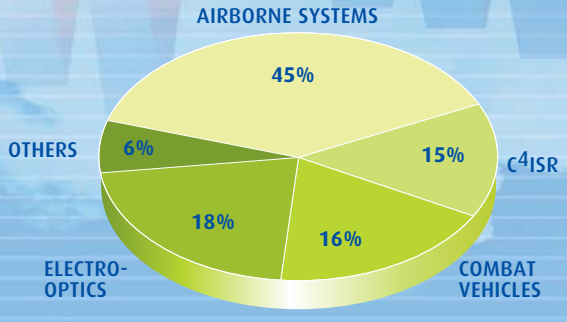








2002 REVENUES [BY MARKETS]



LINES OF BUSINESS

TO OUR SHAREHOLDERS

These are extraordinarily dynamic times in the defense industry. Worldwide events have highlighted the urgent need for effective solutions to meet the emerging threats in the defense and homeland security arenas. Elbit Systems' proven capabilities and advanced technologies, developed through foresight based on years of experience, fit well into this new environment.

The year 2002 marked the continued growth of Elbit Systems, both in revenues and bottom-line, doubling the size of the Company from four years ago. During the course of the year we had success in securing key contracts in virtually all of our core business areas.

We are witnessing increasing demand for our capabilities in the areas of C^4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance), Unmanned Airborne Vehicles, Helmet Mounted Systems, Land Systems, Electro-Optical Thermal Imaging and Laser Systems for various applications and upgrade programs for aircraft, helicopters and combat vehicles.

We are well positioned to meet the evolving needs of our customers around the globe. We remain focused on our efforts to develop technologies, systems and services that produce positive financial results and enable us to maintain a leadership position in our areas of activity.

The following are some of our business highlights and achievements in 2002:

- During 2002 Elbit Systems' annual revenues grew to $827 million, with a record backlog of firm orders of $1.69 billion.
- In Israel we were awarded major contracts for Battle Management Systems and were selected to perform the Ground Forces Digitization program for the Israel Defense Forces.
- In the US we were awarded multiple contracts from **Lockheed Martin** and **Boeing** for Helmet Mounted Display Systems, Head-Up Displays and advanced avionics, as well as a follow-on contract from United Defense to supply systems for the U.S. Army Bradley A- 3 program.
- In Brazil, we were awarded a contract valued over $80 million to supply avionics and logistics support for the Brazilian Air Force ALX aircraft.
- In Turkey we received a contract for a helicopter upgrade program and we are participating in a major modernization program for the Turkish Army M-60 tanks.

We have demonstrated our commitment and capability to meet the challenging demands of today's defense and homeland security markets with innovative solutions and advanced technologies.

Looking forward, we remain dedicated to our goals of delivering superior solutions to our customers, sustaining a leadership position in our business areas, achieving continued growth and increasing shareholder value.

We are confident that our excellent team of highly talented employees will continue to develop and produce leading solutions to the emerging needs of tomorrow.

With the continued invaluable support of our customers, business partners and shareholders, we believe the Company is well positioned to successfully meet our missions ahead.

Michael Federmann
Chairman of the Board

Joseph Ackerman
President and CEO

REFLECTING

Airborne and Helmet Mounted

Meeting challenges posed by the new, interactive battlefield, the Company is concentrating on integrating technologies such as 3-D Audio, Speech Recognition, Data Fusion, Digital Maps and Intelligent Avionics for supreme situational awareness and the ability to arrive at smart, split-second decisions.

Our aim is to bring to market the most advanced avionics concepts necessary for today's and tomorrow's mission safety and success.

Elbit Systems Airborne and Helmet Mounted Displays (HMDs) business continues to grow as defense forces worldwide enhance their equipment and capabilities with our advanced avionics concepts. Because of our extensive system and product line we can offer customers a single source for total integrated solutions. Today Elbit Systems is positioned to provide one of the most comprehensive ranges of core competencies and capabilities in the industry.

The nature of the modern battlefield has changed dramatically and pilots are forced to fly new, sometimes unforeseen, missions. They must have the ability to rapidly adapt and respond to quick-change scenarios. Information must be grasped at a glance so that the pilot can concentrate solely on his mission. Our aim is to bring to market the most advanced avionics concepts necessary for today's and tomorrow's mission safety and success.

Meeting challenges posed by the new, interactive battlefield, the Company is concentrating on integrating technologies such as 3-D Audio, Speech Recognition, Data Fusion, Digital Maps, Data Center, Data Link and Intelligent Avionics for supreme situational awareness and the ability to arrive at smart, split-second decisions. Also vital are highly realistic Training and Simulation to sharpen skills and ease transition from trainer aircraft to complex platforms. The modernized F-5 and Avioane IAR-99 lead-in trainer answer these needs featuring comprehensive

DISPLAY SYSTEMS

avionics packages and a unique "Virtual Training System" mimicking the fighter aircraft environment, including radar operation, missile launching, Surface-to-Air missile sites and chaff & flares.

Command, Control and Battle Management Systems such as HeliC³om provide helicopter pilots with data communications, up to the minute situation pictures, and the tools to share mission critical data with ground and naval platforms.

The Company fully intends to maintain its premier position in the aircraft upgrade field. There are currently several programs in progress, and, through recent contract wins, Elbit Systems is strengthening its presence in Brazil and South American countries. In addition to the F-15, F-16, F-35 JSF, V-22 Osprey, MiG-21 and numerous helicopter types, the Company has already made inroads into modernizing transport and surveillance aircraft, such as C-130s, P-30s and P-3s.

In the rapidly growing HMD market Elbit Systems is operating from a position of strength and global leadership after innovating and integrating three generations of HMDs for both fixed and rotary wing aircraft. Today, Elbit Systems and its subsidiary Vision Systems International (VSI), jointly owned with Kaiser Electronics (a Rockwell Collins Company) have more production and operational experience than any other company in the field. In the past year, VSI was awarded a contract for Joint Helmet Mounted Cueing Systems (JHMCS) from Boeing St. Louis to supply over 300 systems. The Company's pre-eminence in the field extends to Helicopter HMD systems, particularly in the Attack Rotorcraft HMD market. Its ANVIS/HUD is the preferred choice for utility rotorcraft platforms.

Elbit Systems continues to strengthen its position as a leading source of smart munitions. The Company offers a complete arsenal of modular guidance kits which convert "dumb" general purpose bombs into very high precision strike munitions, able to seek, attack and destroy a full spectrum of targets. Based on Image Infrared or Laser Seeking Guidance, Elbit Systems' fully autonomous fire and forget smart munitions kits are smart solutions for enhancing the effectiveness of entire inventories of "dumb" bombs at a very affordable price.

These core competencies developed over time are now being applied to new needs, for example, Helmet Mounted Displays geared for ground vehicles which deliver real time information day/night to wherever the wearer/driver looks. Elbit Systems sees great potential for expanding this product line and leveraging HMD technology into commercial applications as well.

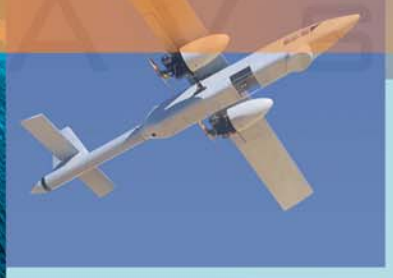
UNMANNED AIRBORNE VEHICLES

High operational versatility and ability to fly high, cruise low and stay aloft for hours - without risking the lives of pilots - render UAVs ideal for numerous missions. As their capabilities and onboard systems become even more sophisticated and comprehensive, these pilot-less eyes in the sky will tackle even more complex challenges.

UAVs are playing increasing roles in military, paramilitary and civilian applications. Beyond real time intelligence gathering and reconnaissance, their high operational versatility renders them ideal for numerous other missions such as ISTAR, artillery fire adjustment, communications relay, maritime surveillance, drug interdiction, coastal patrol, anti-terror operations, environmental supervision, and atmospheric research. As their capabilities and onboard systems become even more sophisticated and comprehensive, these pilot-less eyes in the sky will tackle even more complex challenges.

Elbit Systems and its Silver Arrow subsidiary have achieved world recognition in the UAV market for their turnkey solution approach. The sources of major system hardware, software, maintenance and support, from field to operational levels, their UAV systems have logged thousands of operational hours both for Israeli and international customers.

REFLECTING NEW REALITIES



The light and heavyweight Hermes family comprises new-generation UAVs designed for real time optronic and electronic battlefield intelligence. Gathering data around the clock, their payload weights range from 35 to 350 kgs. In addition to advanced performance, the systems feature fully redundant avionics and are totally autonomous, with in-flight re-direction and extended mission duration.

The Hermes 450, already operational with Israel's Defense Forces, meets unique requirements in the upper range of tactical, long-endurance UAVs. The Hermes 450 is part of a full UAV family designed for diverse missions, including the Hermes 180, a tactical close-range UAV ideally suited for brigade to division levels Intelligence, Surveillance Target Acquisition and Reconnaissance (ISTAR), and the Hermes 1500 for Medium Altitude Long Endurance (MALE) missions.

This year the Seagull and Skylark Mini-UAVs were introduced, systems so compact, lightweight, and simple to operate that they are stored in man-packs and easily launched in the field. The Mini-UAVs are especially effective for performing "over-the-hill" reconnaissance missions yielding real time intelligence at relatively low cost.

Partnering with Thales in its bid for the U.K. Watchkeeper Tactical Unmanned Vehicle program, the team successfully reached the final phase of the U.K. MoD competition. Chosen for its innovative design approach and extensive UAV experience, Elbit Systems will supply its Hermes 180 and 450, ground control systems and communication links. The prestigious program holds great potential for future business in the U.K.

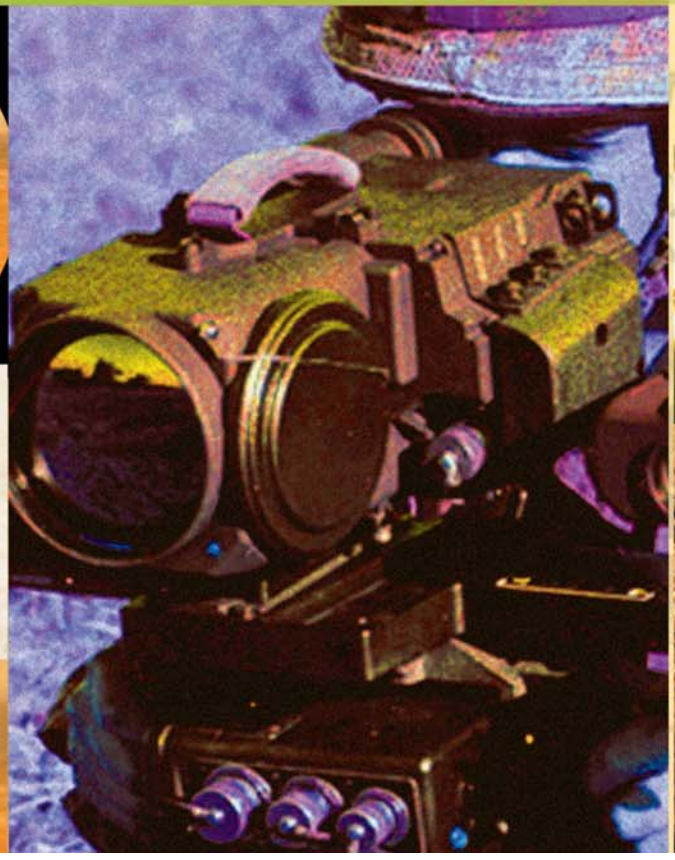
Elbit Systems aims to strengthen its leadership in military, civilian and commercial UAV markets. The Company is on the lookout for new business development in Israel and overseas and a number of joint ventures and cooperation agreements are underway in the U.S. and Europe.

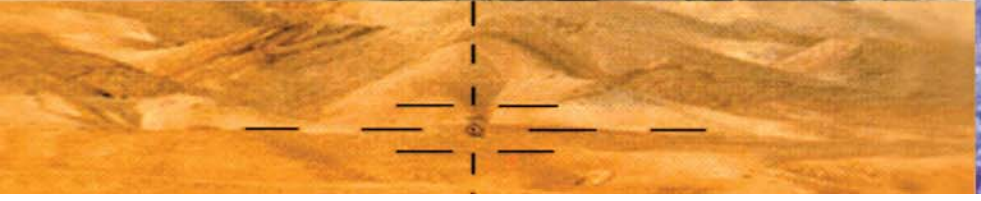
What sets Elbit Systems apart from others in the field is its fully comprehensive range of products and total solution approach.

Customized, turnkey upgrades encompass all AFV functions including mobility, fire power and protection.

GROUND

COMBAT VEHICLE





Elbit Systems continues to be a major player and market leader in the Combat Vehicle Systems market. What distinguishes the Company from others in the field is its fully comprehensive range of products and total solution approach. While others may focus on niche products, Elbit Systems is one source for systems spanning the entire spectrum, from target acquisition to battle management. Its total solution concept covers the entire combat vehicle platform and beyond, from complete modernization to maintenance depots and lifecycle support services.

The Armored Vehicle Upgrades Division headed by El-Op, a wholly owned subsidiary, is truly a one-stop shop offering a broad and diverse array of systems and products and the ability to customize solutions for virtually every vehicle type. El-Op upgrades encompass all AFV functions including mobility, fire power and protection, and incorporate Fire Control, Turret and Gun Control, Battle Management, Life Support and Laser Warning Systems, and other advanced functions and capabilities.

El-Op is the main contractor for all advanced, stabilized Fire Control Systems in service with Israel's Defense Forces, including the Merkava Mark I to Mark IV main battle tanks. Thousands of units are equipped with thermal imaging sights – incorporating unique, proprietary technologies assuring high sensitivity, improved resolution and reliability. Tank thermal channels enable the crew to conduct surveillance and identify longer-range targets in a wider Field of View (FOV). The expanded systems line also features Eyesafe Laser Rangefinders and Designators, CRT and Flat Displays, and HOTV cameras.

EFW, Elbit Systems USA subsidiary is a major subcontractor for the U.S. Army Bradley A-3, supplying turret and hull processors, gunners' and commanders' hand stations and Map Operational Software (MOS) for improved battlefield situational awareness.

The number of large-scale, ongoing programs was augmented this year by significant contract wins. From Lockheed Martin, Elbit Systems was awarded a contract for production of displays and other systems for the Multiple Launch Rocket System (MLRS) for the U.S. Army M270A1.

SYSTEMS

REFLECTING NEW REALITIES

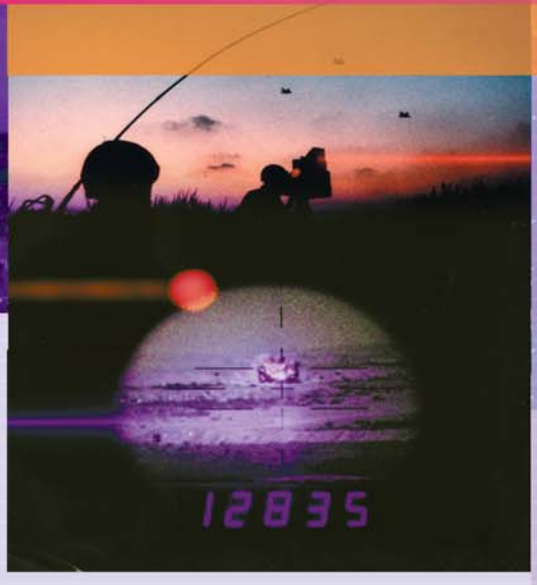
In May 2002, El-Op was selected to upgrade all software and hardware of the fire control computers installed in Israel Defense Forces' Merkava and M60 tanks.

In line with the growing demand for faster, more lightweight combat equipment, Elbit Systems has turned its attention to systems for new wheeled combat vehicles. This market has significant potential, and a first contract has already been secured for serial production of Fire Control Systems for the Austrian Army's Light Armored Wheeled AFV.

As the current trend of outsourcing equipment and maintenance services gains significant momentum, Elbit Systems has expanded its activities with a dedicated business unit for lifespan services and support to meet new demands.

Innovation is the key to bringing new security threats into sharp focus. Incorporated in intelligence, surveillance and reconnaissance systems, electro-optics technologies are essential tools for real time information gathering and optimal response coordination.

ELECTRO-OPTICS



El-Op, a wholly owned Elbit Systems subsidiary, continues to set new standards for electro-optics excellence. The Company's Intelligence, Surveillance and Reconnaissance (ISR) activities reflect new realities and global demands and involve two principal business units – Air & Space IMINT, and Observation & Surveillance – which share a broad infrastructure of technologies, expertise and facilities. Closing the loop from sensor to shooter, El-Op provides tailored IMINT (Image Intelligence) long range observation solutions from any space, air, sea, or ground based source.

During 2002 Elbit Systems gained significant Border Control System programs in Israel and abroad. The Company was awarded contracts for Thermal Imaging Observation and Surveillance systems from customers around the globe. Ortek, a wholly owned subsidiary and manufacturer of electro-optical systems for border and site monitoring and control captured the contract for securing the Jerusalem periphery.

Additional contracts call for the supply of available solutions for upgrading Main Battle Tanks (MBTs) and Armored Fighting Vehicles (AFVs) and border and peripheral control systems.

The past year also witnessed impressive performance by El-Op's long-range airborne reconnaissance payloads. In flights conducted onboard F-16s, these systems yielded very high resolution images. Responding to demands for fast force deployment equipped with lightweight wheeled air transportable fighting vehicles, El-Op has begun development of novel weapon stations that require no penetration into the vehicle's turret roof. Additionally, the Company is applying its military systems expertise to protect fixed wing aircraft and helicopters from surface-to-air man portable air defense missiles. El-Op's MUSIC – Multi Spectral Infrared Countermeasure –adapts military technologies to commercial aircraft applications, enabling identification of the missile launch, breaking the missile "lock," resulting in target-miss.

REFLECTING NEW REALITIES

The Company continued to enhance its existing product range which includes space cameras and specialized sensors, airborne reconnaissance and observation systems, state-of-the-art thermal imaging FLIRS, and lasers used in manned and unmanned airborne vehicles and ground platforms – all of them essential tools for intelligence gathering and coordinating the optimal response.

Despite budget constraints worldwide, El-Op was awarded a number of Forward Looking InfraRed (FLIR) contracts both locally and internationally. These FLIRS are based on a wide range of thermal imaging products in both the 3-5µ Focal Plane Array (FPA) and first and second-generation 8-12µ devices.

Recently El-Op added Fiber Lasers to its technologies repertoire. The company is currently developing and manufacturing a family of very high repetition rate eye-safe lasers based on optical fibers including a laser obstacle warning system for helicopter pilots.

Electro-optics is one of the technologies having the greatest impact in the new security scenario. With the vision, skills and resources necessary to deliver answers to emerging challenges, Elbit Systems aims to remain in the forefront of the field.

C4ISR REALITIES

Elbit Systems continues to play a leading role in C4ISR and Battlefield Management Systems, and considers them key drivers to future growth. These systems are no longer options, but essentials, particularly in light of increased concern of many governments with homeland security issues and anti-terrorism measures.

Successful operations in the complex, interactive battle arena depend on advanced capabilities to manage masses of data from information systems and sensors, and to interpret and disseminate content to decision-makers in command posts and in the field. Enhanced force coordination and connectivity on all fronts is found in the synergy of command, control, communication, computers and intelligence, surveillance and reconnaissance capabilities.

Elbit Systems continues to play a leading role in C4ISR and Battlefield Management Systems, and considers them key drivers to future growth. These systems are no longer options, but essentials, particularly in light of increased concern of many governments with homeland security issues and anti-terrorism measures.

The growing importance of this market segment led to this year's establishment of a separate, dedicated division to deal with increased demand. The new division is currently heading up the Israel Defense Forces' "Ground Forces Digitalization" program, a large-scale, multi-year

endeavor, in which existing C^3 systems of ground forces will be integrated with new-generation systems and applications. The goals are to facilitate coordination between forces at different command levels, provide greater situational awareness to maneuvering forces and improve overall operational capabilities. The program will significantly contribute to Elbit Systems' technology base.

With one of the most comprehensive C^4I systems and product ranges in the industry, the Company is also active in spheres of Integrated Battlefield Management, Border Security Systems, Information Technology, Image Intelligence (IMINT) and ISR technologies.

Elbit Systems' advanced Battle Management Systems produce a single picture for enhanced situational awareness to army, infantry, intelligence and engineering corps. The Company employs a tactical building block approach to link various applications and levels of command, from battalion levels to single units resulting in fully integrated information sharing systems, unrivaled in the field. This year Elbit Systems was awarded a first phase contract from the IMOD to serve as private contractor and perform the IDF program of Battle Management Systems for Battalion Combat Teams ("BCT BMS").

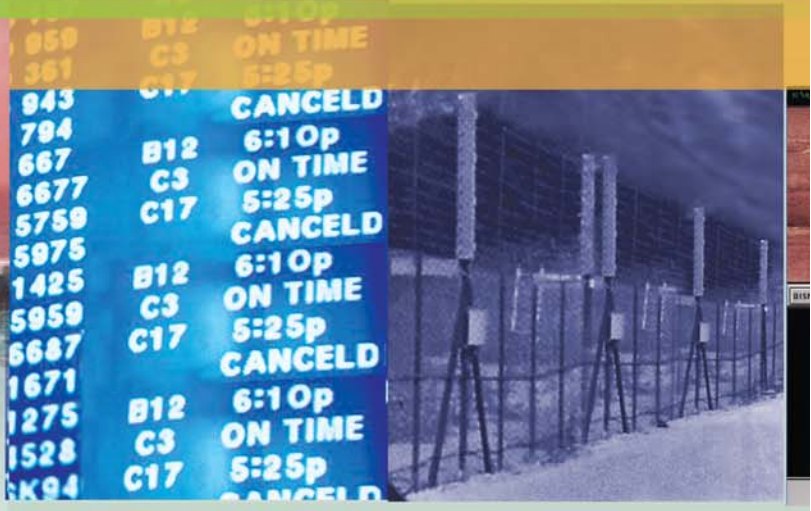
Information, Surveillance and Reconnaissance (ISR) systems are direct answers to current events and combat trends, requiring systems that can manage diverse and dispersed information. An example is ICE, an Integrative ISR center for the entire operational cycle of satellite and airborne imagery, beginning with initiation of intelligence request, through the interpretation process and dissemination of intelligence aids and reports. ICE addresses the growing demand for delivery of real-time intelligence for faster and more informed decision making.

In the past year, the newest generation of COMBAT, Command, Control, Communication and Information for field artillery was introduced. COMBAT 4G incorporates decades of performance-proven battlefield experience with over a dozen armies worldwide. Designed for deployment from platform to brigade level, the newest COMBAT supervises all unit resources, supports decision making at tactical and operational levels, and assures faster response time than ever before.

An innovative force in naval systems, simulators and trainers, Elbit Systems has tackled demanding naval missions for over three decades and is one of the few defense manufacturers in the world to offer fully integrated submarine-based ELINT/ESM systems.

Elbit Systems is continuously devising new security solutions for enhanced protection, detection, deterrence and response.
Having first hand experience and testing grounds on the homefront, the Company's security solutions are already in action in diverse scenarios and applications.

SECURITY REALITIES

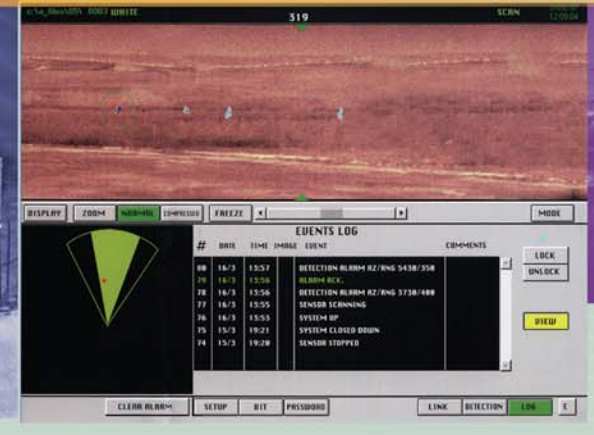


From the frontline to the homefront, from border security systems to airport access control, Elbit Systems is continuously devising new security solutions for enhanced protection, detection, deterrence and response. Having first hand experience and testing grounds on the homefront, the Company's security solutions are already in action in diverse scenarios and applications. Its complementary strengths are fused in advanced spaceborne cameras, all-altitude around the clock photography, real time imagery, thermal imaging devices – these and more are the building blocks for comprehensive security solutions providing pinpoint detection and identification of diverse threats.
Elbit Systems takes great pride in having being chosen this year by Israel's Ministry of Defense to construct a "smart" Electronic Fence on the seam line of the "Jerusalem Envelope." The fence will warn of and assist in thwarting any infiltration attempts around the clock and in all weather conditions. Every attempt at incursion or attack will be instantly transmitted to a Control Center. The project will be performed by Ortek, a fully owned subsidiary. Additionally, the Company has assumed a central role in planning the security subsystems operated by the Israel Defense Forces which include Command and Control, Aerostats and Surveillance Sensors.

This year the Company won a contract for development and support of an information processing system for the Israeli Money-Laundering Prohibition Authority (IMPA). The project will provide IMPA with an Information Technology (IT) system comprising a data base and collection center for relevant data from various financial institutions. The system will facilitate detection of individuals and organizations that may be engaged in terror funding or money-laundering activities.

To answer the evolving demands of this high growth sector, Elbit Systems has expanded its security systems portfolio beyond border and coastal infrastructures to encompass Strategic Sites and Access Control. The Company is prime contractor and systems integrator for the Israel Police Border Control System, a computerized system for registration and control deployed at every border crossing point countrywide.

SOLUTIONS



The events of 9/11 intensified the urgency of improved Airport Security and more stringent Access Control for which Elbit Systems has developed and integrated multi-layered solutions incorporating cutting-edge biometrics, optical ID and RFID technologies. The Company's perimeter security solutions have also been adapted for energy infrastructures and offshore installations.

TRAINING AND SIMULATORS

The focus is on superior simulation technologies and Onboard Training Aids that recreate diverse scenarios aboard actual aircraft and inject striking new realism into virtually any mission.

Training to face today's complex combat arena requires advanced systems, curriculums and concepts. Elbit Systems builds on over three decades of training and simulation programs to offer across-the-board systems engineering and integration expertise applied to a comprehensive line of air, ground and naval training and simulation solutions – all of them designed to maximize realism and minimize the often difficult transition to advanced, complex platforms and missions.

Unique to Elbit Systems is the work force behind these total training solutions – a team of active military pilots, tank and naval commanders whose operational expertise is translated into superior training and simulation. Blending combat experience with today's most innovative simulation technologies, the Company has designed, developed and delivered operational and tactical, virtual and embedded Trainers and Simulators to leading military forces worldwide.

This year witnessed a surge in interest and market demand for superior simulation solutions, in fact, Trainers and Simulators constitute one of the Company's potential growth segments. The Company received contract awards for Homeland Security simulation applications from domestic and international customers.

The focus is on superior simulation technologies and Onboard Training Aids that recreate diverse scenarios aboard actual aircraft and inject striking new realism into virtually any mission. In many cases actual avionics are embedded, such as on the F-5 Avionics Simulator which features Mission Computer, Displays, Pilot Interface Units and a Display and Sight Helmet System in its architecture.

As military systems become more sophisticated, the cost of crew training rises. The realization that such training can be done more cost-effectively, efficiently and above all, more safely in a simulator will contribute to ongoing sales momentum. Elbit Systems and its subsidiary, Simultec, are positioned to benefit, both in Israeli and international markets.

SUPPORT AND SERVICES

REFLECTING NEW REALITIES

Whatever the mission demands, from start, to finish, to follow-up, is today provided by Elbit Systems and its service-related subsidiaries.

As armed forces worldwide look to optimize defense budgets by outsourcing support services, Elbit Systems is poised to seize the new growth opportunities in the field. Extending customer relationships beyond defense systems and solutions, providing unparalleled service and continuously finding new ways to bring added value has led to the expansion of life-span logistics, encompassing every aspect of service and support.

Elbit Systems has for decades provided end to end, design to deployment services in many large scale modernization projects. The Company has expanded its repertoire to include Maintenance, Pilot Training, and more recently Private Finance Initiative (PFI) programs in which the contractor owns, maintains and operates the aircraft and is reimbursed by customers according to flight hours. To that end, the Company created Snunit Aviation Services (Israel), a fully owned subsidiary which recently captured a ten-year Israel Air Force contract for operation of GROB G-120-1 trainer aircraft, and responsibility for multi-year maintenance according to advanced practices. The contract calls for trainer operation through a PFI program with the IAF purchasing flight hours, and Snunit supplying a dedicated technical crew for all operations and maintenance tasks.

Whatever the mission demands, from start, to finish, to follow-up, is today provided by Elbit Systems and its service-related subsidiaries. Cyclone (Israel) concentrates on engineering and manufacturing aircraft structures and maintenance and upgrade of light aircraft and helicopters. International Enterprises (IEI) USA, specializes in service and support for military electronics installed on aircraft and ships. AEL (Brazil) serves as a center for production and logistics support of advanced defense electronics for Elbit Systems' programs in Brazil.